



NC OSC Policy 102.2

Additions/Renovations/Improvements Policy

Policy Area: Accounting and Financial Reporting	Effective Date: 7/1/1995
Policy Sub Area: Capital Assets	Last Revision Date: 7/1/2009
Authority: GASB Codification Section 1400 and 2300	Policy Owner/Division: Statewide Accounting

Policy

Additions are considered separate assets and should be capitalized if the cost equals or exceeds the \$5,000 capitalization threshold. An addition increases the physical size or operating capabilities of an asset through expansion or extension.

A renovation or improvement cost may or may not be a separate asset. In order to capitalize a renovation or improvement cost, certain criteria must be met. First, the cost must equal or exceed the \$5,000 capitalization threshold. Second, the renovation or improvement must either: a) significantly extend the useful life of the original asset, or b) increase the future service potential of the asset. If both of these criteria are met, the expenditure must be capitalized and recorded separately at total purchase or construction cost. Expenditures not meeting both of these criteria should be classified as a maintenance expense. Care must be taken when distinguishing between maintenance costs and renovation and improvement costs. For example, energy conservation projects that guarantee energy savings to exceed costs should generally be capitalized since these projects increase the efficiency and future service potential of the asset and are not routine maintenance.

A modification/upgrade to existing internally generated computer software should be capitalized if the following criteria are met: First, the outlays associated with the modification must equal or exceed the \$1,000,000 capitalization threshold for internally generated computer software. Second, the modification must result in at least one of the following: a) an increase in the software's functionality, b) an increase the software's efficiency, or 3) an extension of the software's estimated useful life. All other modifications are considered maintenance. A modification/upgrade may have activities that can be grouped into the following three stages: preliminary planning stage, application development stage, and post-implementation/operation stage. Only outlays related to activities in the application development stage should be capitalized.

Procedures

NA

Accounting Guidance

Additions do not involve renovations. A new wing to a building or the addition of an air conditioning system to a building are examples of additions. Addition costs are different from maintenance costs. Additions add future benefits. Maintenance costs are incurred to keep the original asset in normal operating condition.

Renovation and improvement costs are incurred to restore or improve buildings or other capitalized assets. These costs involve the substitution of old parts for new ones and increase the economic benefits to be derived from the asset.

If parts of an asset are removed during a renovation/improvement project, the original cost (less depreciation if applicable) of the part of the asset being removed should be retired. Because of the difficulty of measurement or of immateriality, this may not be possible. The removal costs associated with the renovation should be expensed. The remaining cost of adding the renovation would be the cost of the new asset.

Related Documents (Memos/Forms)[Capitalization Policy](#)[Maintenance Policy](#)[Intangible Assets Policy](#)**Revision History**

Date	Description
07/01/2009	Updated for GASB 51.